

A scenic landscape photograph showing a calm body of water in the middle ground, surrounded by lush green grass and shrubs in the foreground. In the distance, there are rolling hills and mountains under a cloudy sky. A semi-transparent green overlay covers the right side of the image, where the main title text is placed.

**COMPREHENSIVE  
ECONOMIC  
DEVELOPMENT  
STRATEGY UPDATE  
AND STUDY SESSION**

**CITY COUNCIL ITEM #2**

**NOVEMBER 7, 2022**

[www.cityofpaloalto.org](http://www.cityofpaloalto.org)



# COMPREHENSIVE ECON. DEV STRATEGY

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- CY 2021 & CY 2022 City Council Priority
  - Community and Economic Recovery Workplan:  
Focused Business Support
  - Economic Recovery and Transition Workplan:  
13 projects underway or complete
- Hired first staff dedicated to Economic Development since 2016
- Onboarded a consultant (Streetsense)

# Activities Currently Underway

## Holiday Promotions

- As in 2020 and 2021, City partnering to promote local businesses through the holiday season
- Seeking promotions from businesses; [citymgr@cityofpaloalto.org](mailto:citymgr@cityofpaloalto.org) with ideas

## Coordination, Outreach, and Engagement

- Direct contact with residents and businesses
- Responding to questions & requests for assistance, sharing info about programs, engaging stakeholders for feedback

### Holiday Promotions 2022

The City of Palo Alto is working on ways of enhancing the community experience and economic vibrancy and our local businesses are a big part of this overall effort. Uplift local is the City's continued effort of encouraging our community and visitors to shop and eat local. It seeks to connect the community to business resources. To that end, we are seeking local business promotions you'd like us to amplify during the upcoming holiday season (December – end of February). Your promotion would be included in print collateral, and digital and website marketing and communications.

Past examples of promotions shared:

- Buy one get one
- Discount
- Drink special
- Menu special

If you'd like to be included in the City's Uplift Local Holiday effort, please provide your information below by **November 21**.

Business Name:

Point of Contact Name:

Role of Point of Contact (Owner, Manager, etc):

Phone Number:

Email Address:

Business Address:

Promotion Idea (e.g. 5% discount when mentioning 'Uplift Local'):



CITY OF  
**PALO**  
**ALTO**

# PALO ALTO COMPREHENSIVE ECONOMIC DEVELOPMENT STRATEGY

## GOAL SETTING STUDY SESSION

CITY COUNCIL STUDY  
SESSION

PREPARED FOR CITY OF PALO ALTO  
NOVEMBER 7, 2022



# PALO ALTO COMPREHENSIVE ECONOMIC DEVELOPMENT STRATEGY

CITY COUNCIL STUDY  
SESSION

PREPARED FOR CITY OF PALO ALTO  
NOVEMBER 7, 2022

## AGENDA

01

Team Introductions

02

Project Overview

Purpose & Goals

Today's Objectives

Approach

Process

03

Global, National, and Local Trends

Spending & Retail

Travel & Hospitality

04

Regional & Local Competition

Growing Competition

Improvements to Sales Life Cycle

Physical Elements of Competitive Commercial Districts

05

Discussion

# INTRODUCTIONS



**LARISA ORTIZ**  
Managing Director, Principal-in-Charge  
Public + Non-Profit Solutions, Streetsense



**ASHLEY LABADIE, AICP**  
Senior Project Director  
Public + Non-Profit Solutions, Streetsense



**BARRY FOSTER**  
Principal/Managing Director  
Hdl Companies

## **STREETSENSE WHERE CREATIVITY LEADS.**

We are a global creative collective. We're place shapers, brand builders, storytellers. For two decades, we've been creating places and brands people love — vibrant streetscapes and local gathering spots, big ideas and bespoke concepts, communities both physical and virtual. Our consultants and creatives make space for great experiences, and shape what's next.

## **HdL** Companies

The HdL Companies partner with local governments nationwide, providing a full assortment of public agency revenue management services including sales tax, property tax, lodging tax, business license and tax, cannabis regulation and tax, economic development and more.

# INTRODUCTIONS



**LARISA ORTIZ**  
Managing Director, Principal in Charge  
Public + Non-Profit (PNP) Solutions  
Streetsense



**ASHLEY LABADIE, AICP**  
Senior Project Director  
Public + Non-Profit (PNP) Solutions  
Streetsense



**BARRY FOSTER**  
Principal/Managing Director  
Hdl Companies

## STREETSENSE

Over 25 years of experience leading economic development planning efforts nation-wide, with specialized expertise in mixed-use and retail-driven environments, including:

- City of Cambridge, MA
- Third Street Promenade, Santa Monica, CA
- Union Square Partnership, San Francisco, CA
- City of Westminster, CA
- City of Vienna, VA
- City of New York, NY

## HdL Companies

HdL has worked for 150 local governments and 25 private sector developers during the past eight years including other Bay Area cities, such as:

- Belmont
- Cupertino
- Danville
- Hercules
- Lafayette
- Los Altos
- Menlo Park
- Morgan Hill
- Newark
- Pinole
- Pleasant Hill
- Redwood City
- San Leandro



# PROJECT OVERVIEW

## Purpose

Prepare a Comprehensive Economic Development Strategy reflecting the delicate ecosystem that drive vibrancy of the City's major commercial centers, downtowns and districts, with a focus on sectors most affected by the COVID-19 Pandemic (retail and hospitality)

## Main Goal

Develop a market-informed economic development strategy that will ensure Palo Alto's post-COVID competitiveness by identifying impactful public sector interventions, policies and investments for which there is both need and consensus for action



# TODAY'S OBJECTIVES

## Purpose

- To develop a shared understanding of global and national trends and local market challenges
- To share field observations and preliminary insights
- To lead a productive dialogue with opportunity for feedback and goal setting



## APPROACH



### PHYSICAL ENVIRONMENT

- Public Realm
- Private Realm
- Access & Visibility
  - Street, Sidewalks & Mobility
  - Parking



### BUSINESS ENVIRONMENT

- Anchors and destination drivers
- Competitive districts
- Microclimates



### ADMINISTRATIVE CAPACITY

- Partners
- Funding
- Regulations



### MARKET ANALYSIS

- Retail Trends
- Hospitality Trends
- Customer Segments
- Visitor & Local Demand

**Our economic development strategies are rooted in local market understanding, stakeholder input, and visioning.**

**Looking ahead, success is:**

- Vibrant places for residents and visitors
- Thriving businesses in the city's primary business districts
- A stabilized tax base that continues to generate resources in support of robust city service delivery

# PROCESS

## **PHASE 1: IMMERSION** September-November 2022

*Background document review, dedicated field work, stakeholder engagement, including:*

- *Four focus groups*
- *Individual stakeholder interviews*
- *City staff interviews*

Council Study Session: November

## **PHASE 2: DIAGNOSTIC** November 2022 – January 2023

*Commercial Real Estate Market Assessment, Regulatory/Administrative Capacity Assessment, Business Environment Assessment, Physical Environment Assessment*

Deliverables: Assessment Findings

Council Check-in: January

## **PHASE 3: STRATEGIES** February – April/May 2023\*

*Economic development recommendations and strategies*

Deliverable: Draft and Final Report

Final Council Meeting: April/May

*\*consultant contract approved for longer duration to accommodate potential additional services, if needed*

# **GLOBAL, NATIONAL, AND LOCAL TRENDS IN RETAIL & HOSPITALITY**

# TRENDS | TENANTS ARE IN THE DRIVER'S SEAT

## Global and National Trends

Traditional retail relationships are being reset by trends in on-line sales and changes to the shopping experiences. COVID-19 has accelerated these changes resulting in:

- As use of the internet and home delivery increases in popularity, a **reduced demand for storefront space**
- Streamlined inventory made possible by advances in technology and more sophisticated supply chain now allow retailers pursuing **smaller format spaces in higher quality locations**
- As social media replaces the need for a physical presence, especially where there are digital savvy customers, a **change in how tenants value the 'flagship' store**

## Palo Alto

- Some migration of tenants from traditional corridors to Class A shopping environments as tenants seek better locations
- Softening of demand along previously strong corridors reflected in higher vacancy rates



# TRENDS | BRICK & MORTAR SPENDING HAS MIGRATED

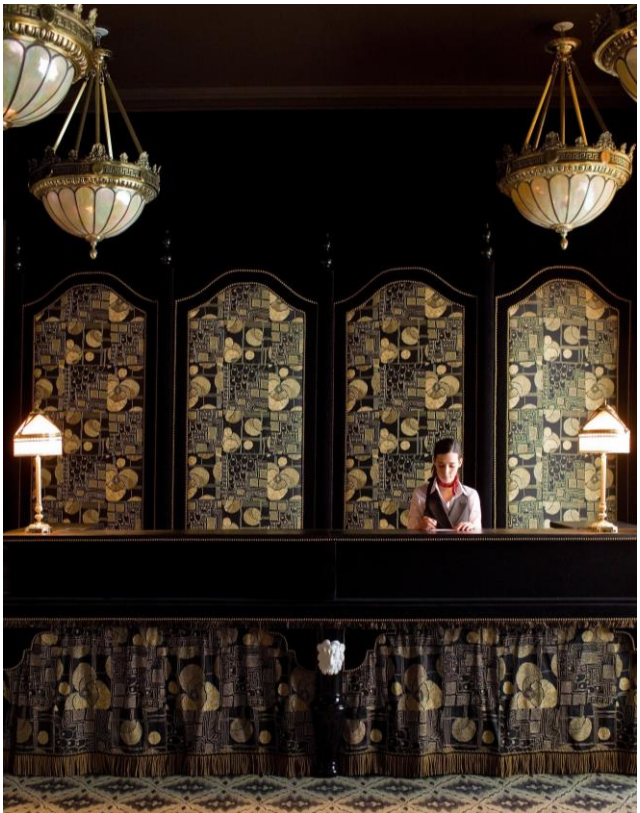
## Global and National Trends

With the accelerated transformation of retail, once thriving centers of commerce are reinventing themselves. Recovery from the past several years with a focus on more on **inviting and memorable experiences that cannot be replicated in on-line environments**

- **Food and beverage, entertainment and activities take center stage with supportive retail sales**
- Spaces must be **highly managed and curated with activation to encourage people to spend time**

## Palo Alto

- **Dominance of food & beverage offerings along commercial corridors and districts**
- **Strong post-COVID recovery by Class A shopping centers**



# TRENDS | MATURE MARKETS ARE FREQUENTLY OVERBUILT

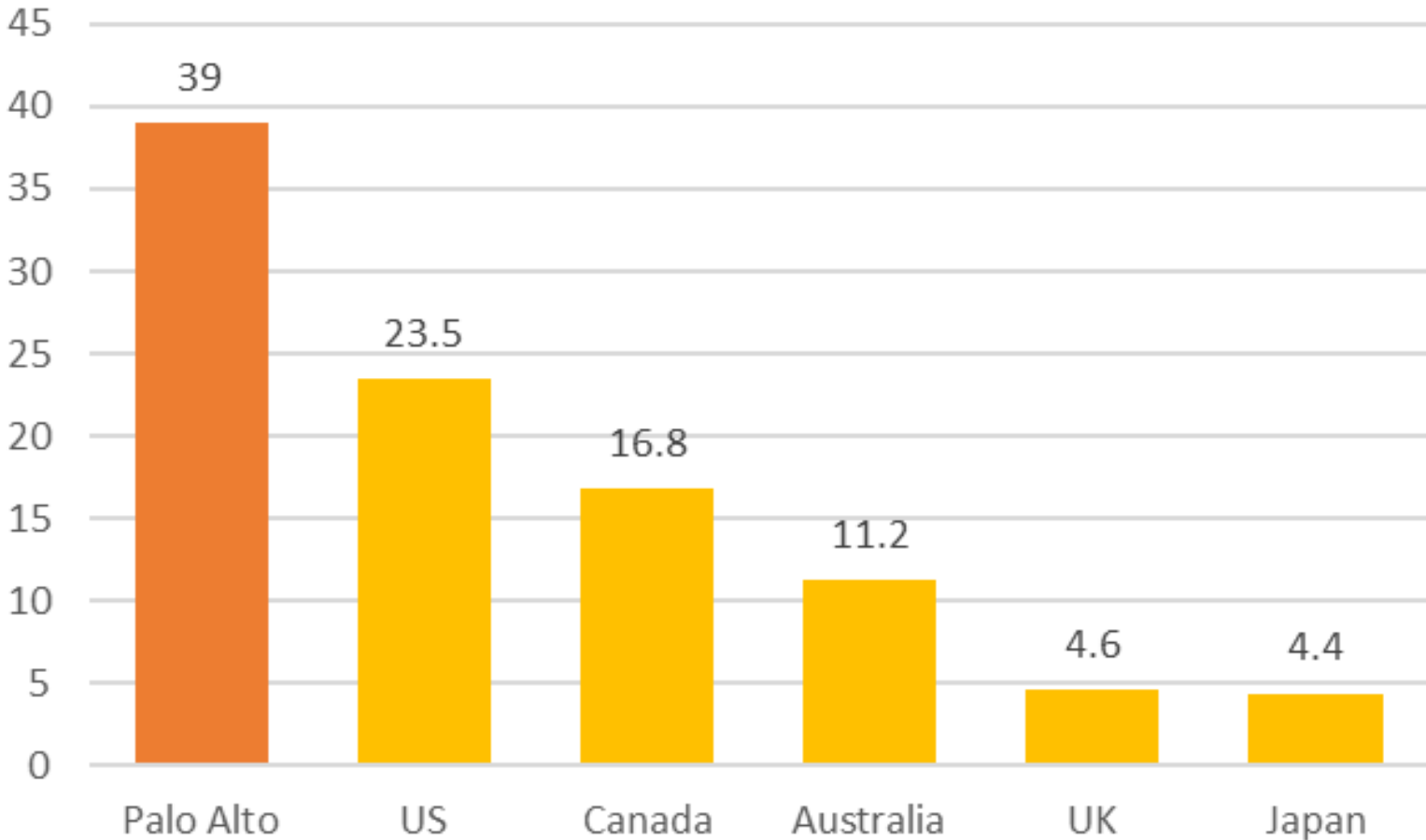
## Global and National Trends

- Nationally, the average retail per square foot is estimated at 23.5 SF, significantly higher than all other industrialized nations
- When there is more retail than can be supported by spending, retailers end up chasing the same dollars

## Palo Alto

- Palo Alto has 39 sf of retail per capita, 63% greater than the U.S. average.
- In affluent markets like Palo Alto, supportable retail per capital is typically around 15-18 SF of retail.
- Spending from visitors and daytime office workers enables Palo Alto to support significantly more retail than could otherwise be supported by residents alone

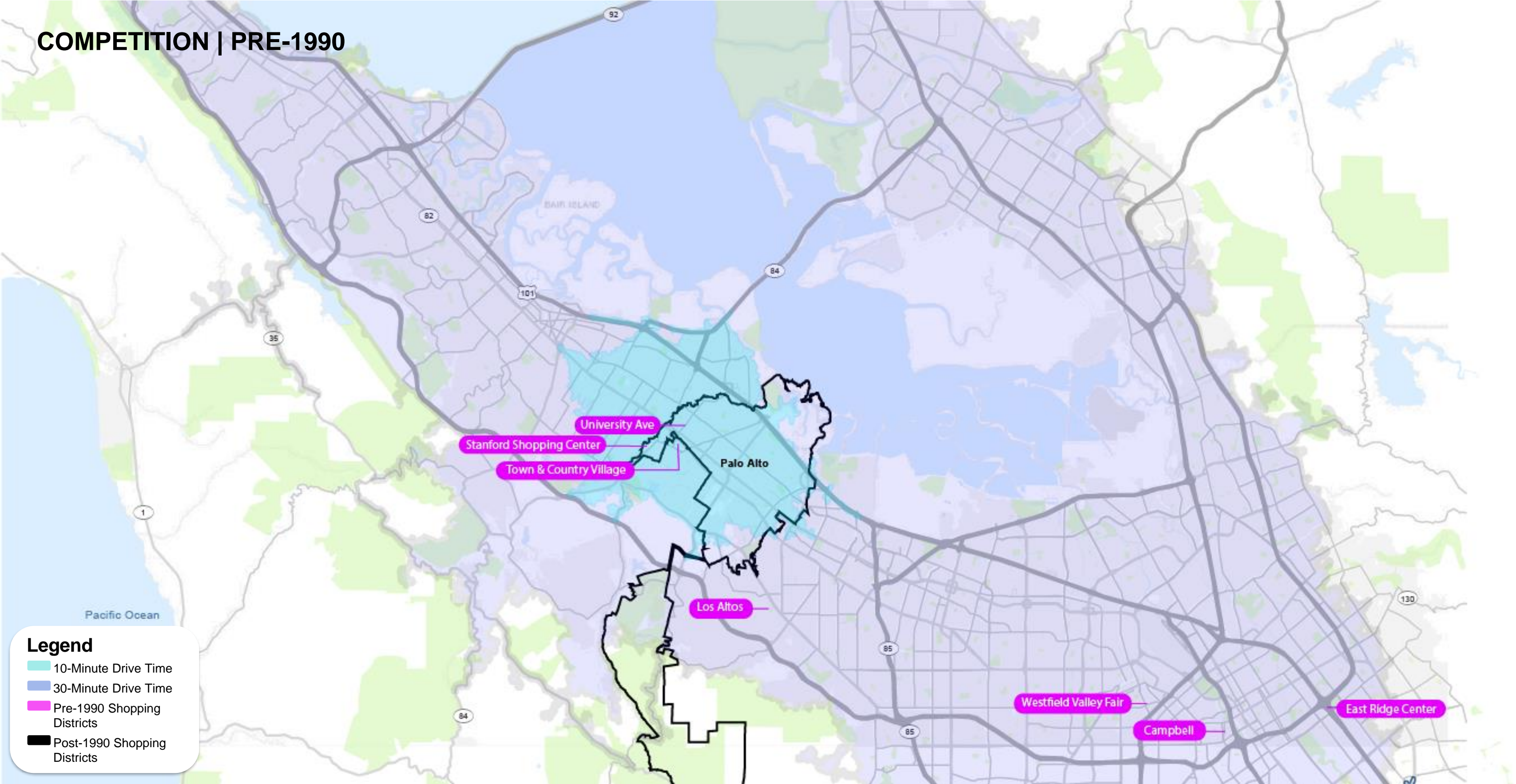
Retail SF per Capita



Source: ICSC, Cushman & Wakefield, Streetsense, 2018



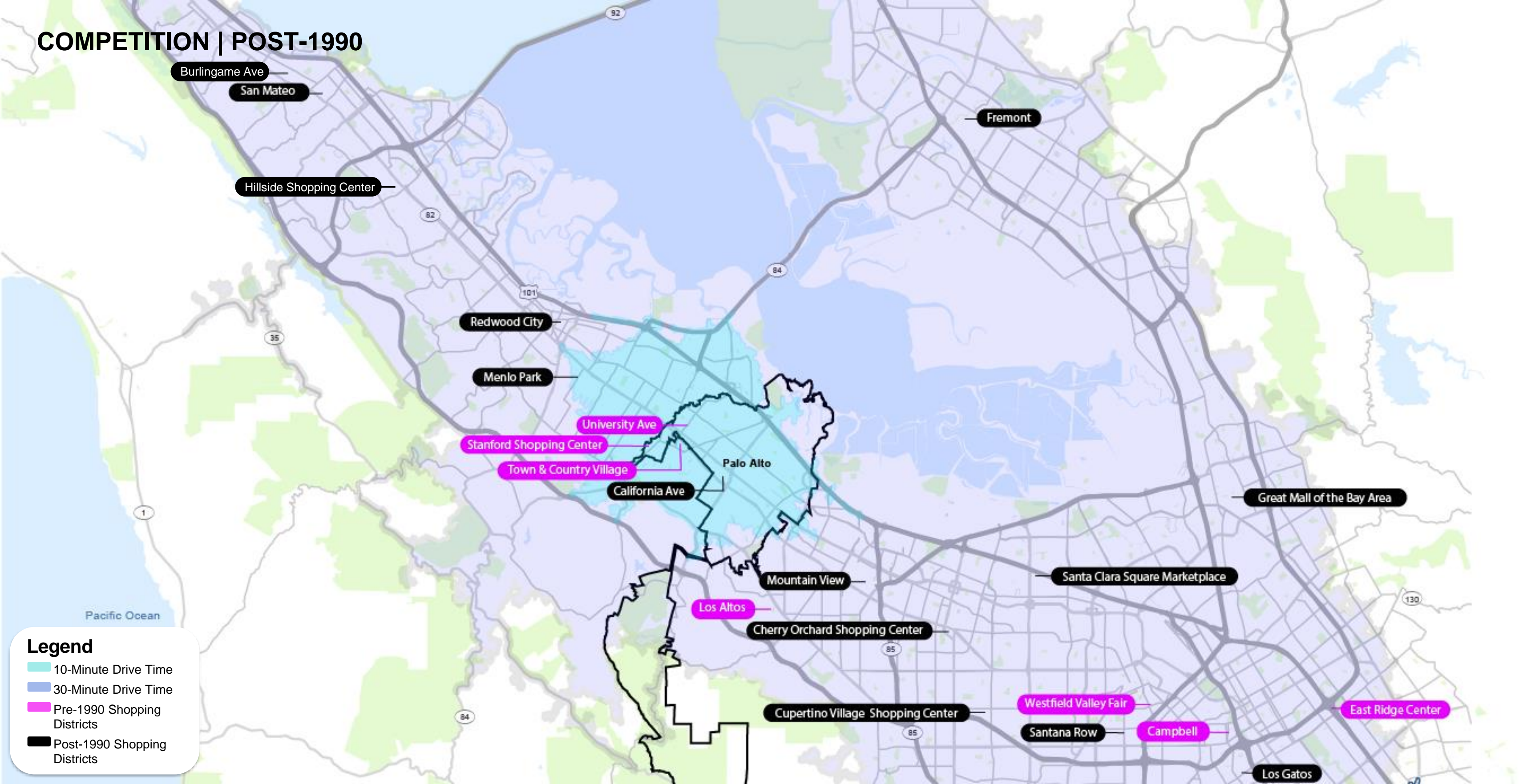
# COMPETITION | PRE-1990



**Legend**

- 10-Minute Drive Time
- 30-Minute Drive Time
- Pre-1990 Shopping Districts
- Post-1990 Shopping Districts

# COMPETITION | POST-1990



# TRENDS | DIMINISHED OFFICE WORKER SPENDING/ INCREASED RESIDENTIAL SPENDING

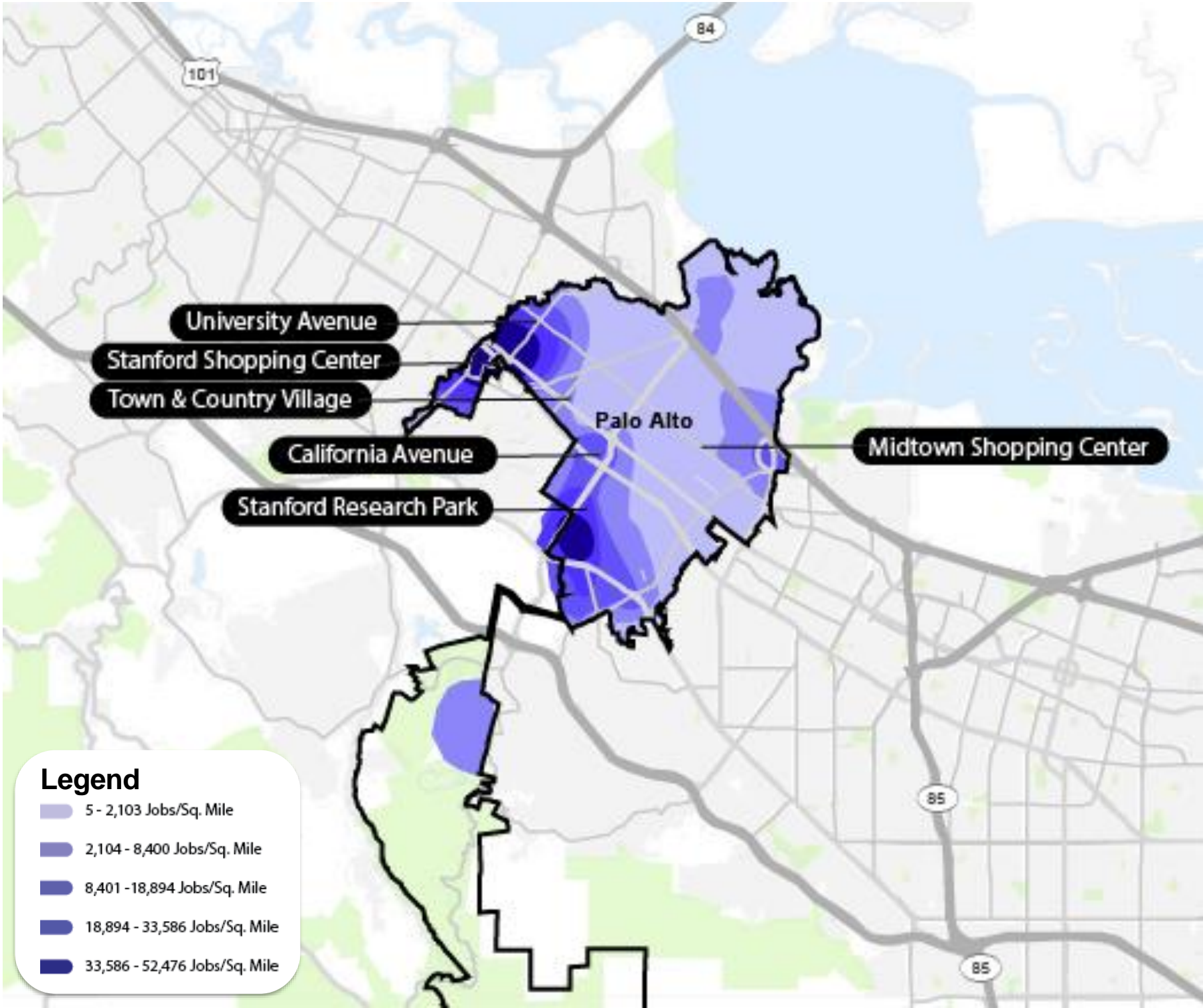
## Global and National Trends

The model of working downtown from nine to five isn't how business is done anymore. New spaces, different hours and a more diverse workforce are now the norm.

- **National:** Employees are spending approximately 24% less time in the office reducing associated spending that used to be an extension of the workday
- **National:** With 87% of offices adopting a hybrid work style, an office with the same number of people is likely to require less space
- **Local:** Day time population has diminished, but weekends are back to normal

## Palo Alto

Metrics suggest the return to office remains slow. The City is now selling only 52% of parking permits on University Ave. and 31% on California Ave. compared to 100% pre-COVID.

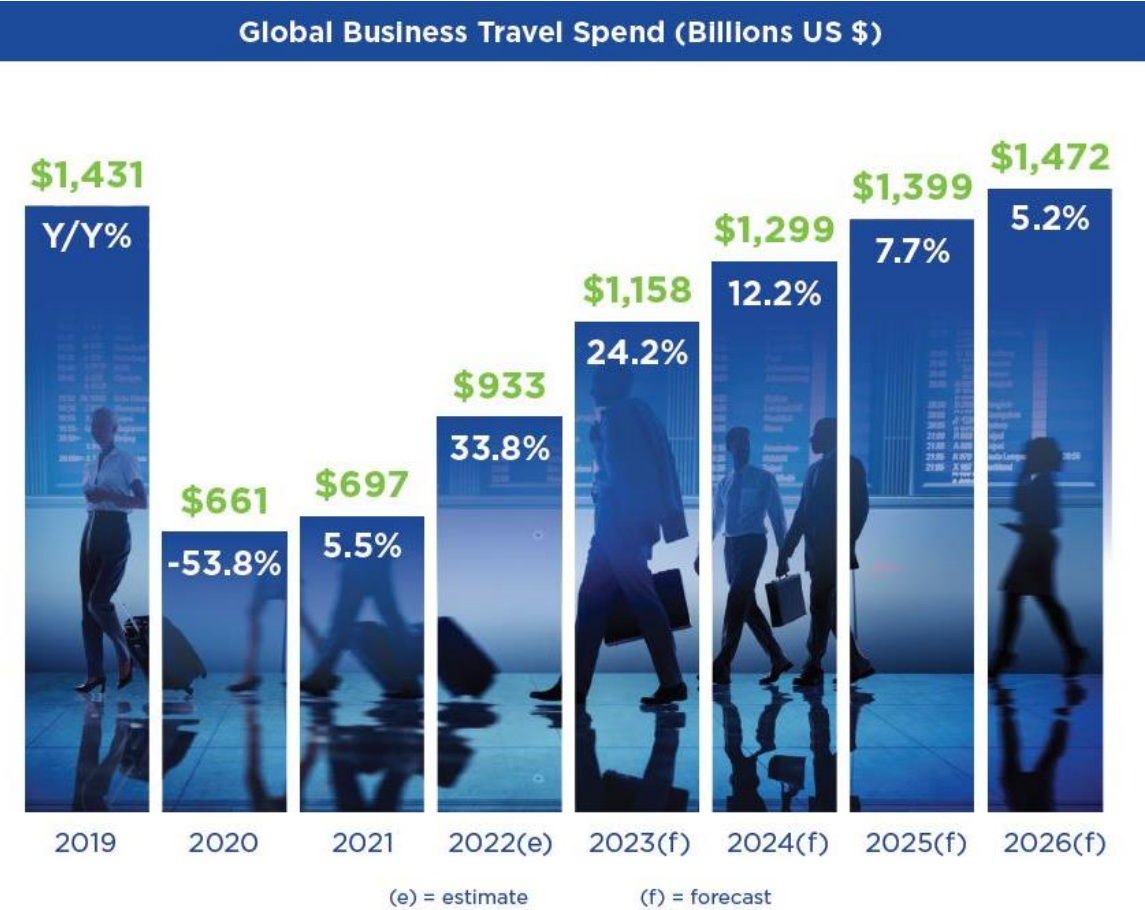


Source: U.S. Census, Streetsense, 2019

# TRENDS | BUSINESS TRAVEL

## Global Trends

Global business travel is progressively returning but continues to be hindered by actual or potential disruptions related to the pandemic or other global uncertainties.

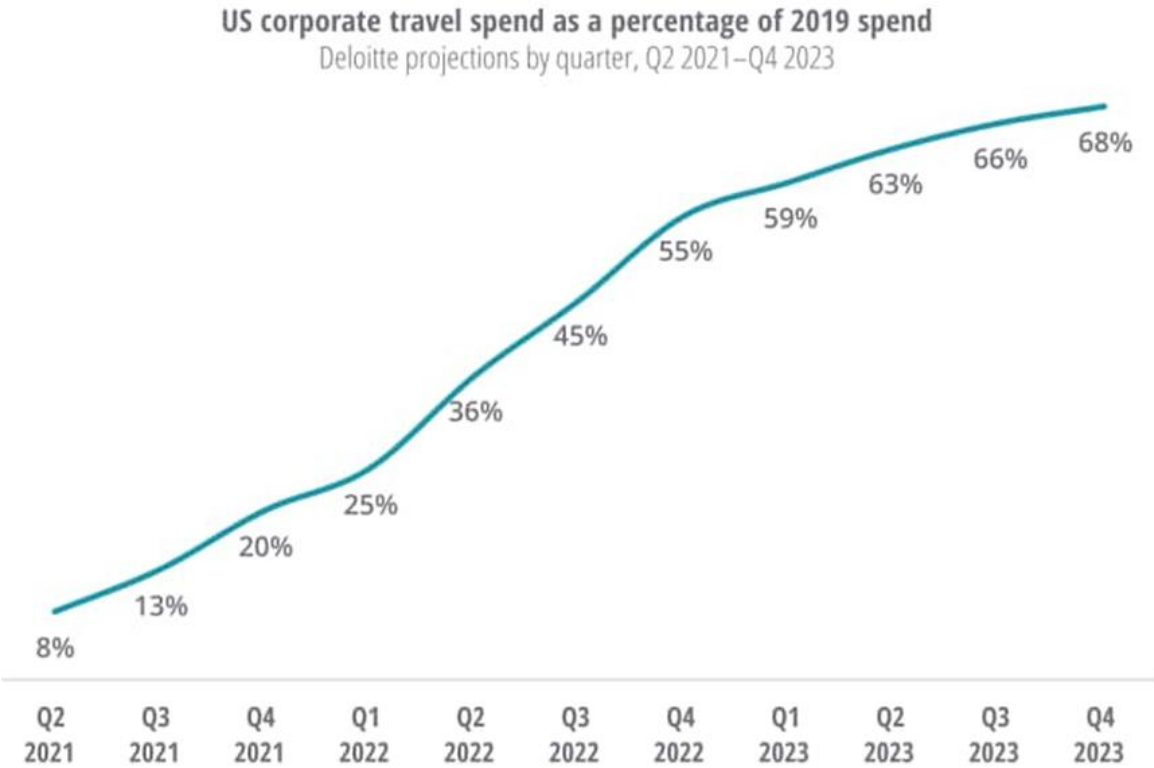


Source: Global Business Travel Association

## Domestic Trends

Similarly, US business travel is recovering at a similar pace, but the deterrents for full restoration include climate sustainability and the strength of virtual meeting technologies.

### Strong growth is expected in 2022, followed by deceleration in 2023



Source: Deloitte Corporate Travel Survey 2022, N = 150.

# TRENDS | HOSPITALITY

## Palo Alto

- Despite slower national business travel recovery trends, Palo Alto's mid-week occupancy is robust due to business travelers.
  - Occupancy rates of 70-80% (near pre-COVID levels), despite adding 300 rooms during the pandemic via two new Marriott's
  - Tax revenues higher than pre-pandemic. Short of another national challenge (e.g. a potential recession), they should be fully back to FY19 levels by FY23.
- Stable institutional occupancy drivers
  - Education
  - Medical and business
- Local hospitality industries, like shopping and dining, benefit from Palo Alto's central location in Bay Area
  - Palo Alto a meet-up place for the area populace.
  - Most tourism-type activity limited to site seeing by international travelers.
- Weekend occupancy rates have historically remained low and represent an opportunity for improvement via business travel extensions or innovative leisure getaway strategies that build upon under-the-radar local assets.



University Avenue Entertainment Venues



Palo Alto Junior Museum & Zoo, Art Center, and Rinconada Park

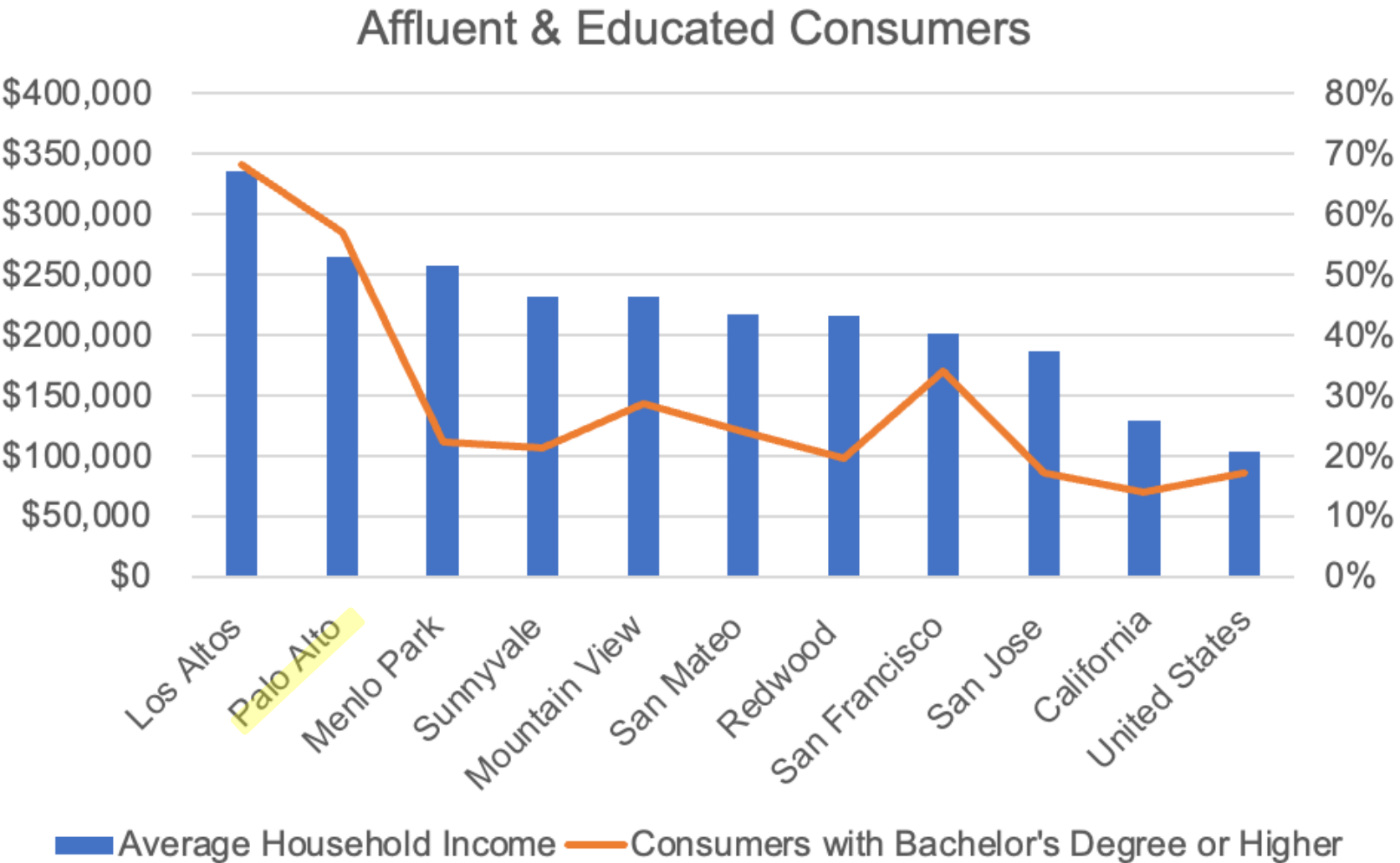


Baylands Nature Preserve, Palo Alto Municipal Golf Club, and Palo Alto Airport

# PALO ALTO | INCREDIBLY DISCERNING CUSTOMER BASE

## Palo Alto

- The Palo Alto residents are among the most affluent and educated in the region
- Discerning customers have high expectations and many options for where they spend time and income
- Tenants are often able to tap into this consumer base without locating in Palo Alto, competition for tenants from nearby City's is strong



Source: Sitewise, 2022

# PALO ALTO | SMALL BUSINESSES STILL STRUGGLING

## National Trends

- Small, locally owned businesses were hardest hit, particularly restaurants, retailers, and personal service providers
- Sales tax revenues are mostly back to pre-pandemic numbers in 2022, but many small, independently owned businesses are not back to pre-pandemic cash flow and required revenue margins
- Common economic influences / macro conditions forcing increased cost of doing business across tax generating groups:
  - Supply chain & manufacturing disruptions
  - High labor and raw material costs
  - Employment/labor shortages
  - Shift to online-shopping

## Palo Alto

- Total Sales Tax bounced back but that doesn't indicate a healthy local economy
- Palo Alto sales tax revenues reflecting national Small shopping areas most effected
- Two of Eight Sales Tax Business Type Categories decreased from FY 2020 to 2022
  - *Business & Industry*: -41.2% (\$2,492,626)
  - *Food and Drugs*: -6.9% (\$42,492)

Palo Alto Shopping Areas					
	FY 2019-20*	FY 2020-21*	FY 2021-22*	% Change FY 20 – 22	% Total Revenue FY-22
Palo Alto Downtown	\$ 2,976,323	\$ 2,063,216	\$ 3,137,135	5.4%	11.6%
El Camino Real	\$ 1,538,789	\$ 1,637,483	\$ 2,029,484	31.9%	7.5%
Stanford Shopping Center	\$ 1,428,944	\$ 1,606,611	\$ 1,936,306	35.5%	7.2%
California Avenue	\$ 893,081	\$ 747,103	\$ 1,043,871	16.9%	3.9%
Town & Country Village	\$ 528,053	\$ 692,732	\$ 534,491	1.2%	2.0%
Midtown Shopping Center	\$ 208,235	\$ 175,947	\$ 201,979	-3.0%	0.7%
Charleston Shopping Center	\$ 91,790	\$ 79,342	\$ 90,275	-1.7%	0.3%
All Other Sales Tax Producing and Shopping Areas	\$ 16,498,574	\$ 15,472,995	\$ 18,012,333	9.2%	66.7%
City of Palo Alto Total Sales Tax Revenue	\$ 24,163,789	\$ 22,475,429	\$ 26,985,874	11.7%	100%

\* Represents the 1% of sales tax revenues issued to Palo Alto

**RE-INVESTMENT LIFE CYCLE**



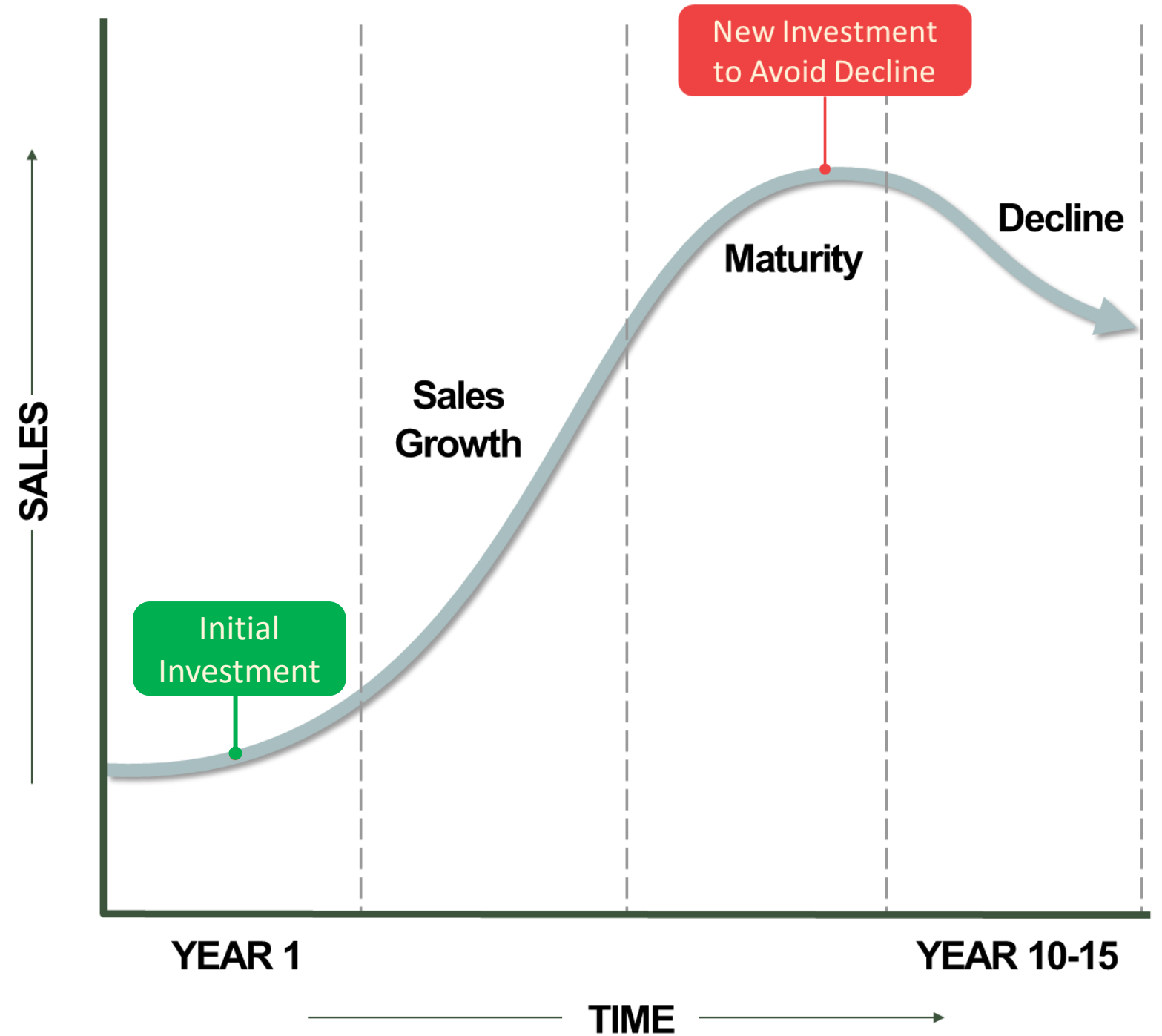
# UNDERSTANDING THE SALES LIFE CYCLE

## Sales Growth Further Impacted By:

- Periodic upgrades and growth in competition
- Macro-economic conditions (online shopping)
- Unexpected events (COVID)

## Palo Alto's Primary Commercial Shopping Districts

- **Midtown Shopping Center:**
  - Constructed in 1956
  - Periodic upgrades
- **University Ave:**
  - 1998 - streetscape improvements, including reclaimed bulb-outs for seating, landscaping, and sidewalks
  - 2018/2019 - gas and water line replacements, repaving of select sidewalks, lighting and signage upgrades, landscaping, bulb-out repair
- **California Ave:**
  - 2014 - lane reduction with widened sidewalks, at-grade plaza, new lighting, new bike racks, newsstands, landscaping; periodic art installations
- **Stanford Shopping Center:**
  - 2014-2016 – new inline stores and flagship stores; major upgrades to common areas, walkways, wayfinding, art
  - 2022-2023 – new flagship stores, pad site upgrades, and standalone restaurants
- **Town & Country Village:**
  - 2006: major renovation to common areas, structural upgrades, new lighting, signage, and improved access
  - Recent common area improvements



# PRELIMINARY PHYSICAL ASSESSMENT

*as compared to “class a”  
shopping environments*

**Sidewalks & Streets**  
**Storefronts**  
**Signage & Wayfinding**  
**Gathering Places**

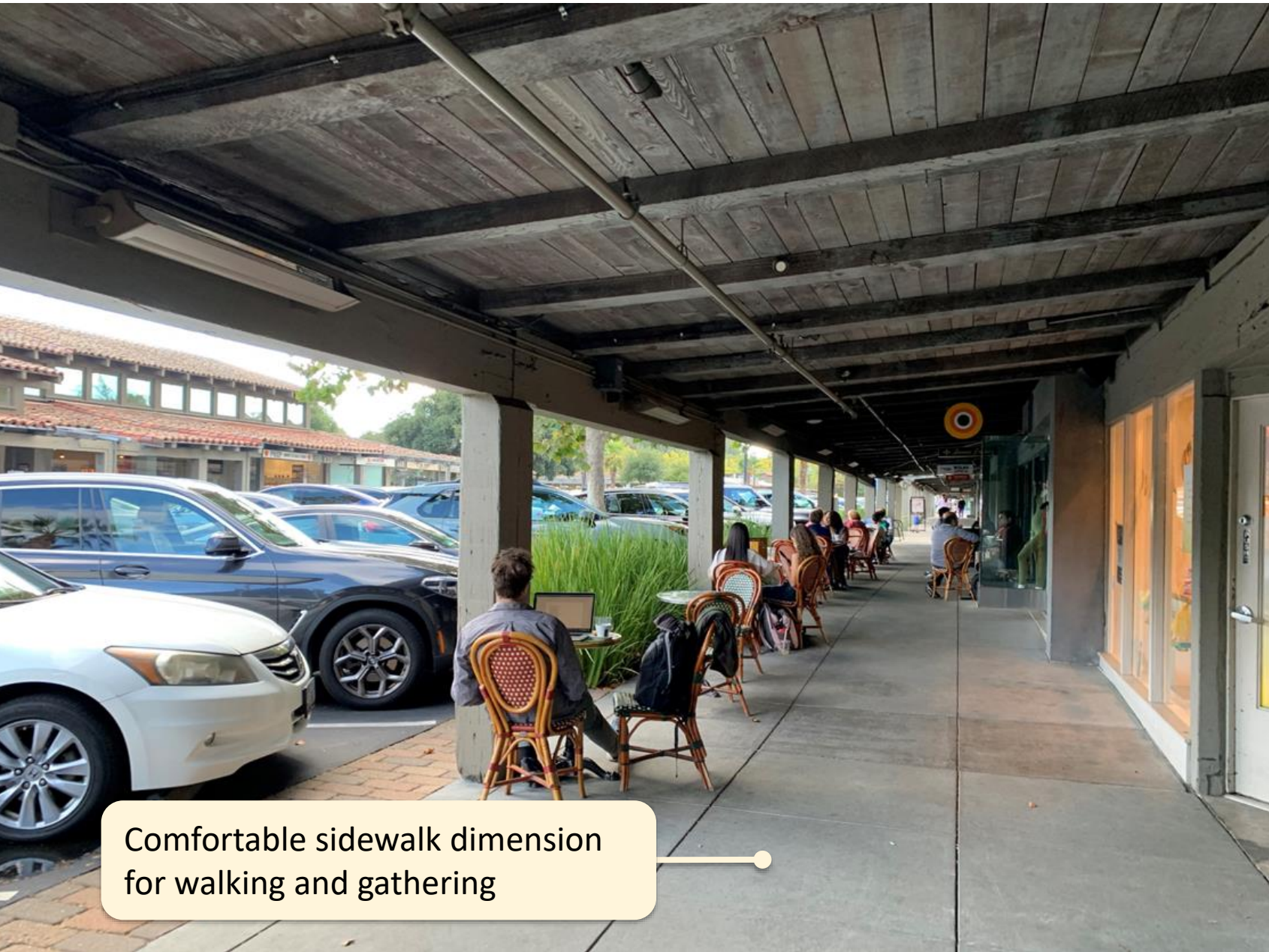


# SIDEWALKS & STREETS | DIMENSION

Narrow sidewalk with parklet functions comfortably for walking and gathering



University Avenue



Comfortable sidewalk dimension for walking and gathering

Town & Country Village

# SIDEWALKS & STREETS | MAINTENANCE



University Avenue



Santana Row

# SIDEWALKS & STREETS | BICYCLE RACKS & NEWSSTANDS



Poorly maintained newsstands that also lack continuity with other streetscape elements

University Avenue



Bike racks used incorrectly and lack continuity with other streetscape elements

Consistent and modern bike racks placed outside of walking path

University Avenue



California Avenue

# SIDEWALKS & STREETS | RECLAIMED BULB-OUTS



University Avenue



University Avenue



California Avenue

# SIDEWALKS & STREETS | CLOSED STREETS BARRIERS



Ramona Street



Santana Row

**STOREFRONTS | VACANCIES**



Vacant storefronts in apparent transition for unknowable duration – missed opportunity to market and position state of "transition" in positive light

University Avenue



Vacant storefronts curated temporarily for marketing space and brand resonance

Town & Country Village



**SIGNAGE & WAYFINDING | BUSINESS SIGNAGE**



University Avenue



University Avenue

# SIGNAGE & WAYFINDING | PARKING SIGNAGE



Digital parking availability signage systems strongly encouraged to continue

California Avenue Parking Deck



Digital parking availability signage and parking location signage allows easy, quick, and safe decision making in high pedestrian areas

Santana Row

# GATHERING SPACES | LANDSCAPE FEATURES

Expansive public space presents opportunities for more activation and programming – may require redesign



Stanford Shopping Center



University Avenue



University Avenue

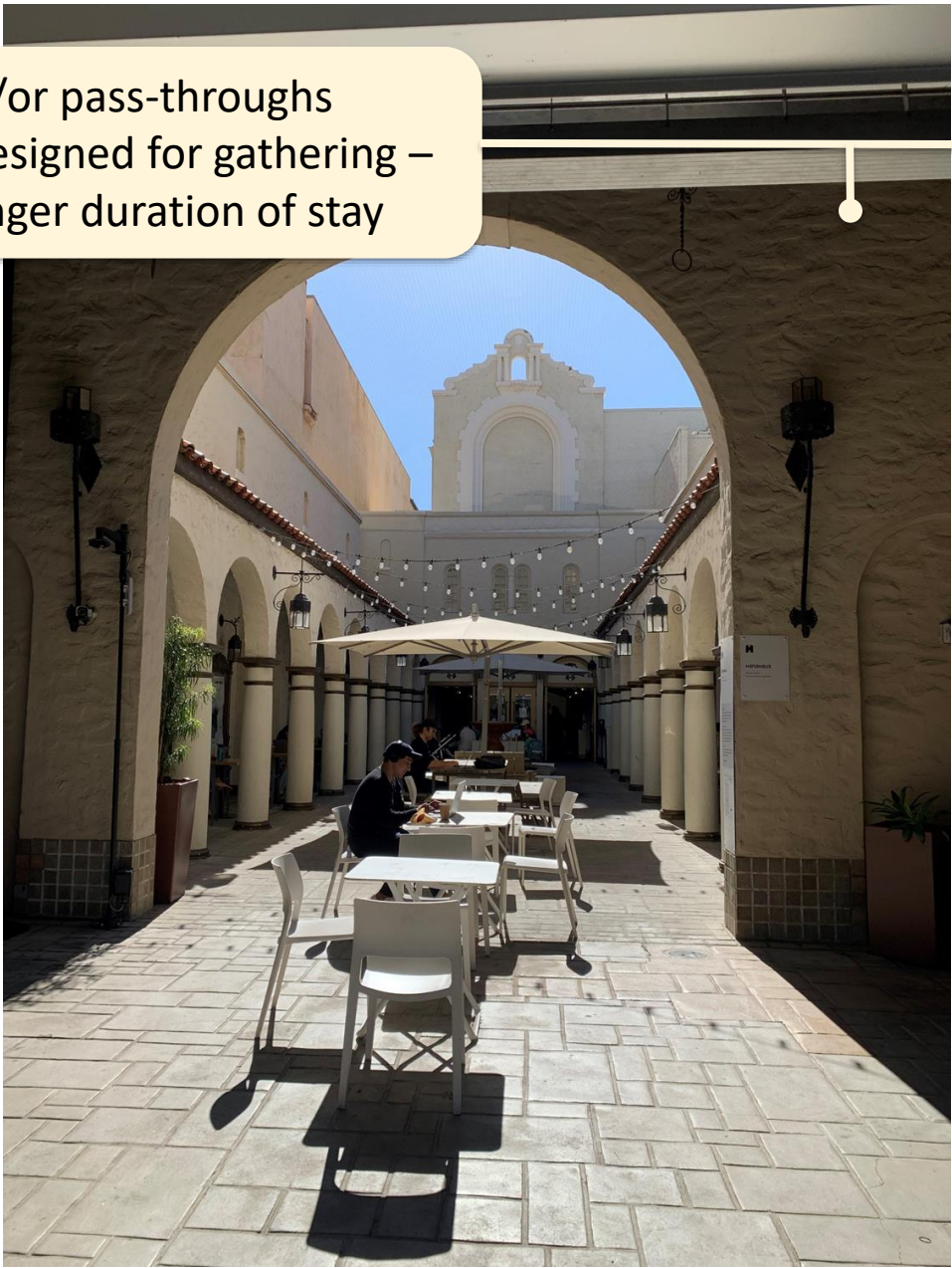
Size, amount, style, and location of all landscape features thoughtfully considered to create "outdoor rooms" for activation and programming

# GATHERING SPACES | ALLEYS & INTIMATE SPACES

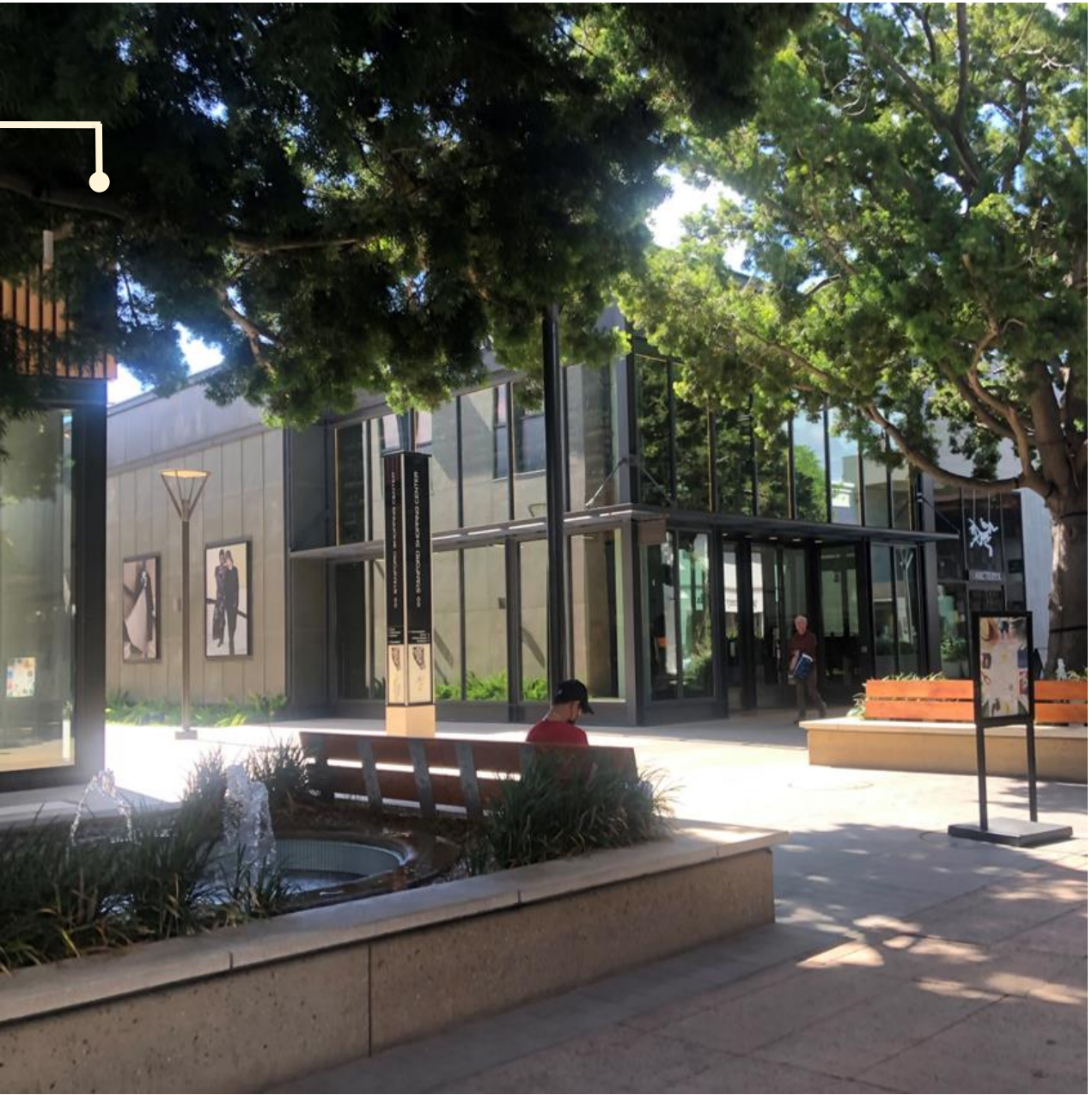
Utilitarian and/or pass-throughs thoughtfully designed for gathering – encourages longer duration of stay



Town & Country Village



University Avenue



Stanford Shopping Center

# PROCESS

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September-November 2022

*Background document review, dedicated field work, stakeholder engagement, including:*

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# **DISCUSSION**

01 What does successful economic development look like to the residents of Palo Alto?

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- 02 How would you frame Palo Alto's most significant economic development challenges?



- 01 What does successful economic development look like to the residents of Palo Alto?
- 02 How would you frame Palo Alto's most significant economic development challenges?
- 03 Is Palo Alto in a position to reinvent itself to remain competitive?

**STREETSENSE**

641 S ST NW  
WASHINGTON, DC 20001  
STREETSENSE.COM

@REALSTREETSENSE

DC  
NYC  
LA  
MAD  
LDN

**THANK YOU.**

